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A STUDY ON INVESTORS' BEHAVIOUR TOWARDS MUTUAL FUNDS WITH REFERENCE TO WEST BENGAL

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ABSTRACT

The mutual fund industry in India has witnessed exponential growth over the past two decades, driven by increasing financial literacy, regulatory improvements, and the expansion of digital investment platforms. As an essential component of the capital market, mutual funds facilitate efficient resource allocation, mobilizing savings into productive investment channels. The industry's role in promoting financial inclusion is particularly noteworthy, as it enables retail investors to participate in wealth creation with relatively lower risks compared to direct equity investments. This study examines the behaviour of investors towards mutual funds in West Bengal, with a focus on their decision-making patterns and the influence of demographic factors on investment behaviour. The study employs a structured survey to analyse the preferences, awareness levels, risk tolerance, and key factors influencing investment decisions among mutual fund investors. A sample of 212 investors from West Bengal was selected to assess their investment behaviour and identify correlations between demographic variables and investment preferences. The findings reveal that factors such as age, income, and education significantly impact investment choices, with younger investors displaying a higher inclination towards mutual funds compared to older age groups. Additionally, financial literacy and past investment experiences play a crucial role in shaping investment decisions. The study emphasizes the need for enhanced investor education and transparent financial advisory services to promote mutual fund participation. The research provides insights for fund managers and policymakers to develop strategies that align with investor expectations, ensuring greater financial inclusion and market participation in the mutual fund industry.

KEYWORDS: Mutual Funds, Investor Behaviour, Financial Literacy, Demographic Influence, Risk Tolerance, Investment Decision, West Bengal, Financial Inclusion

1. INTRODUCTION

The mutual fund industry in India has grown exponentially over the past few decades, becoming a significant avenue for individual and institutional investors to participate in the financial markets. Mutual funds pool money from multiple investors and invest in a diversified portfolio of equities, bonds, and other securities. This collective investment approach offers investors professional fund management, liquidity, diversification, and ease of access to a variety of asset classes. The growth of the Indian mutual fund industry can be attributed to factors such as increasing financial literacy, regulatory reforms, technological advancements, and the rising aspirations of a growing middle class seeking wealth creation and financial security.

The evolution of the mutual fund industry in India began in 1963 with the establishment of the Unit Trust of India (UTI) by the Government of India and the Reserve Bank of India (RBI). For decades, UTI held a monopoly in the mutual fund space until the 1990s when the liberalization of the Indian economy paved the way for private sector participation. The Securities and Exchange Board of India (SEBI) introduced comprehensive regulations in 1996 to protect investor interests and ensure transparency. Since then, the industry has witnessed a surge in the number of Asset Management Companies (AMCs), offering a diverse range of schemes tailored to different risk appetites and financial goals. Today, major players like HDFC Mutual Fund, SBI Mutual Fund, ICICI Prudential Mutual Fund, and others dominate the market, managing trillions of rupees in assets.

Investment in mutual funds in India is categorized into various types based on the underlying assets and investment objectives. Equity mutual funds primarily invest in shares of companies and are considered high-risk but offer potentially higher returns over the long term. Debt mutual funds, on the other hand, invest in fixed-income instruments like government bonds, corporate bonds, and treasury bills, providing relatively lower but stable returns. Hybrid funds combine equity and debt to balance risk and reward. Additionally, sectorial funds, index funds, and exchange-traded funds (ETFs) have emerged as specialized investment options, catering to investors who want to focus on specific industries or passively track market indices.

The mutual fund industry has benefited significantly from technological innovation and digital transformation. The introduction of online investment platforms, mobile applications, and digital Know Your Customer (e-KYC) processes has made it easier for investors to access and manage their investments. Systematic Investment Plans (SIPs) have become especially popular among retail investors, allowing them to invest small amounts regularly and benefit from rupee cost averaging. This disciplined investment approach helps mitigate market volatility and is particularly attractive to first-

time investors. According to the Association of Mutual Funds in India (AMFI), the SIP mode of investment has played a crucial role in driving consistent inflows into mutual funds, even during periods of market turbulence.

The regulatory framework governing the mutual fund industry in India is robust, ensuring transparency and investor protection. SEBI, the primary regulator, imposes stringent guidelines on disclosure, fund management practices, and operational conduct. Periodic reforms, such as the reclassification of mutual fund schemes and the introduction of Total Expense Ratio (TER) limits, have aimed to enhance clarity and reduce costs for investors. Moreover, initiatives like investor awareness campaigns under the "Mutual Funds Sahi Hai" slogan have educated millions about the benefits and risks of mutual fund investments.

Investment in mutual funds in India is influenced by several macroeconomic and demographic factors. Rising disposable incomes, increasing urbanization, and a growing culture of financial planning have contributed to the expanding investor base. Furthermore, the low penetration of mutual funds compared to developed markets suggests significant potential for future growth. Economic developments, interest rate movements, and market conditions also play a pivotal role in shaping investor sentiment and mutual fund performance. As Indian investors become more financially aware, there is a growing preference for diversified and professionally managed investment products.

Despite the promising growth trajectory, the mutual fund industry faces several challenges. Market volatility, regulatory changes, and economic uncertainties can impact investor confidence and fund performance. Moreover, a lack of financial literacy in rural and semi-urban areas limits the industry's reach. To address these challenges, AMCs are focusing on expanding their distribution networks, enhancing customer service, and leveraging technology to provide personalized investment solutions. The future of the mutual fund industry in India remains bright, supported by a growing investor base, continuous innovation, and an evolving regulatory landscape fostering a secure and transparent investment environment.

2. LITERATURE REVIEW

Zhu, He, and Hu (2023) investigated the impact of product recommendations on online investors' mutual fund purchasing behaviours. Utilizing data from a global e-commerce platform, they applied a regression discontinuity design to assess the causal effects of these recommendations. Their findings revealed that recommended funds experienced a significant increase in purchases, particularly among investors of lower socioeconomic status. However, these investors often realized poorer investment returns post-purchase. The study attributed this outcome to reduced information gathering and effort in fund research when investors opted for recommended funds. Additionally, the redemption timing for these funds was less optimal compared to non-recommended ones. The authors concluded that while product recommendations can influence purchasing decisions, they may inadvertently lead to suboptimal investment outcomes, especially for less affluent investors, potentially exacerbating wealth disparities in financial markets.

Burlacu, Fontaine, and Jimenez-Garcès (2022) examined the rationale behind investors' preference for actively managed equity mutual funds by constructing a reference portfolio for uninformed investors based on the Grossman and Stiglitz (1980) framework. Their empirical analysis demonstrated that, when using this reference portfolio, actively managed funds yielded an insignificant alpha of 23 basis points annually. In contrast, using the stock market index as a benchmark resulted in a negative and significant alpha of -128 basis points per year. These results suggest that active management may add value for uninformed investors by providing access to information not fully reflected in market prices. The study concluded that the perceived benefits of active management are context-dependent and influenced by the chosen benchmark, highlighting the importance of appropriate reference portfolios in performance evaluation.

Cashman, Deli, Nardari, and Villupuram (2012) explored investor responses to mutual fund performance by analysing fund inflows and outflows. Their research indicated that investors are sensitive to poor performance, leading to significant outflows from underperforming funds. Conversely, superior performance did not attract commensurate inflows, suggesting an asymmetrical response pattern. The study concluded that while investors are quick to penalize poor performance by withdrawing capital, they are less responsive to positive performance, potentially due to skepticism about its sustainability or other behavioural biases.

Barber, Huang, and Odean (2016) investigated the factors influencing mutual fund flows to determine which elements are most significant to investors. Their study found that past performance, particularly recent returns, heavily influenced investor decisions, often more so than fees or other fund attributes. This behaviour suggests a tendency among investors to chase past returns, potentially at the expense of long-term investment success. The authors concluded that investors' disproportionate emphasis on historical performance could lead to suboptimal investment choices, underscoring the need for better investor education regarding the importance of fees and long-term strategies.

Bollen (2007) examined the relationship between mutual fund attributes and investor behaviour, focusing on how specific fund characteristics influence investment decisions. The study revealed that investors are often attracted to funds with certain appealing attributes, such as star ratings or marketing efforts, which may not necessarily correlate with superior performance. This inclination can lead to herd behaviour, where investors collectively flock to popular funds without thorough individual analysis. The author concluded that while fund attributes can serve as useful heuristics, overreliance on them without proper due diligence can result in suboptimal investment outcomes.

Mathew, Ramesh, Amudha, and Kumar (2020) conducted a systematic literature review to identify behavioural biases

affecting mutual fund investments and their impact on fund performance and investor perceptions. Their analysis highlighted several prevalent biases, including overconfidence, herd behaviour, and loss aversion, which significantly influence investment decisions. These biases can lead to patterns such as excessive trading, following the crowd, or an irrational fear of losses, all of which may detract from optimal investment performance. The authors concluded that recognizing and mitigating these biases is crucial for investors aiming to make rational and effective investment choices.

Kumar (2019) explored the impact of risk perception and psychological heterogeneity on investor behaviour towards mutual funds. The study found that individual differences in risk tolerance and psychological traits significantly affect investment choices and strategies. Investors with higher risk tolerance were more likely to invest in equity-oriented funds, while those with lower tolerance preferred debt-oriented or balanced funds. The research concluded that financial advisors should consider these psychological factors when guiding clients, as personalized advice aligning with an investor's risk perception can lead to more satisfactory investment experiences.

Agarwal (2011) identified various factors governing investor behaviour in the Indian mutual fund industry. The study highlighted that demographic variables such as age, income, and education level play a significant role in shaping investment preferences. Additionally, factors like past experiences, financial literacy, and trust in fund management were found to influence decision-making processes. The author concluded that a comprehensive understanding of these factors is essential for mutual fund companies aiming to tailor their products and marketing strategies to meet the diverse needs of the investor population.

3. RATIONALE OF THE STUDY

The Indian financial market has witnessed a significant transformation over the past few decades, with mutual funds emerging as a preferred investment avenue for retail and institutional investors. Mutual funds provide an opportunity for investors to participate in a professionally managed and diversified portfolio, mitigating risks associated with direct investment in equity and debt instruments. Despite the rapid growth of the mutual fund industry in India, investment penetration remains relatively low, especially in regions like West Bengal, where traditional investment instruments such as bank fixed deposits, gold, and real estate still dominate. This study aims to explore the factors influencing investor behaviour toward mutual funds in West Bengal, a region with diverse economic backgrounds and financial awareness levels.

West Bengal, with its unique socio-economic and cultural landscape, presents an interesting case for analysing investor behaviour. While metropolitan cities like Kolkata have seen increasing participation in mutual funds due to growing financial literacy and digital accessibility, smaller cities and rural areas still exhibit a preference for conventional savings mechanisms. Factors such as risk perception, financial awareness, investment objectives, and demographic variables play a crucial role in shaping investment decisions. Understanding these factors is essential for financial institutions, asset management companies (AMCs), and policymakers to develop targeted strategies that can enhance mutual fund adoption in the region.

Another key rationale for this study is the evolving regulatory framework and technological advancements that have transformed the mutual fund industry. The introduction of Systematic Investment Plans (SIPs), investor protection initiatives by the Securities and Exchange Board of India (SEBI), and digital investment platforms have made mutual funds more accessible. However, the extent to which these developments have influenced investor behaviour in West Bengal remains unexplored. This research will provide insights into the awareness levels, trust, and investment preferences of investors in the region, helping asset management companies refine their marketing and distribution strategies.

Furthermore, mutual funds play a crucial role in economic growth by channelling savings into productive investments. By understanding investor behaviour, financial institutions can tailor their products to meet the needs of different investor segments, thereby fostering financial inclusion and economic development in West Bengal. This study will also identify potential barriers that prevent investors from adopting mutual funds, such as lack of knowledge, market volatility concerns, and perceived risks. Addressing these challenges can contribute to improving financial literacy and investment participation in the state.

Overall, this study is significant as it seeks to bridge the gap between investor expectations and mutual fund industry offerings in West Bengal. By analysing the behavioural patterns, preferences, and concerns of investors, the research will provide valuable insights for stakeholders, including policymakers, financial advisors, and mutual fund companies. The findings will contribute to the broader discourse on financial inclusion and investment behaviour, ultimately helping to formulate strategies that encourage wider participation in mutual funds and enhance financial security for investors in West Bengal.

4. RESEARCH METHODOLOGY

4.1 Research Objectives

i. To analyse the behaviour of investors towards investment in mutual fund.
ii. To examine the relation between demographic profile of investors and their behaviour towards investment in mutual fund.

4.2 Sample Nature And Size

In this study primary sources of data has been used. 212 investors investing in mutual fund from West Bengal have been targeted.

5. DATA ANALYSIS

1. H0 : Investors do not believe that primary reason for investing in mutual funds is wealth creation.

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Primary reason for investing in mutual funds is wealth creation	54.087	211	0.006	4.108	0.088	0.109

Source: Prepared by Author

INTERPRETATION
As per the above table it is seen that significance value is 0.006 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that primary reason for investing in mutual funds is wealth creation.

2. H0 : Investors do not believe that market fluctuations significantly impact their investment decisions in mutual funds.

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
market fluctuations significantly impact their investment decisions in mutual funds	58.314	211	0.044	3.727	0.095	0.556

Source: Prepared by Author

INTERPRETATION
As per the above table it is seen that significance value is 0.044 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that market fluctuations significantly impact their investment decisions in mutual funds.

3. H0 : Investors do not believe that they prefer equity mutual funds despite their higher risk for potentially higher returns.

One-Sample Test						
	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Prefer equity mutual funds despite their higher risk for potentially higher returns.	62.541	211	0.041	3.935	0.542	1.003

Source: Prepared by Author

INTERPRETATION
As per the above table it is seen that significance value is 0.041 which is lower than standard value 0.05, So Null hypothesis is rejected and it is concluded that Investors believe that they prefer equity mutual funds despite their higher risk for potentially higher returns.

4. H0 : There is no relation between demographic profile of investors and their behaviour towards investment in mutual fund.

Variable- 1	Variable-2	Pearson Chi-Square	P Value	Decision
Gender	Primary reason for investing in mutual funds is wealth creation	31.28	0.018	Since significant value is less than 0.05, so it is concluded that there is Significant Association
	Market fluctuations significantly impact my investment decisions in mutual funds.	25.10	0.020	
	I prefer equity mutual funds despite their higher risk for potentially higher returns.	37.54	0.020	
Age	Primary reason for investing in mutual funds is wealth creation	24.01	0.016	
	Market fluctuations significantly impact my investment decisions in mutual funds.	20.77	0.005	
	I prefer equity mutual funds despite their higher risk for potentially higher returns.	38.08	0.007	
Education	Primary reason for investing in mutual funds is wealth creation	10.50	0.011	
	Market fluctuations significantly impact my investment decisions in mutual funds.	8.48	0.002	
	I prefer equity mutual funds despite their higher risk for potentially higher returns.	12.79	0.014	
Occupation	Primary reason for investing in mutual funds is wealth creation	14.62	0.003	
	Market fluctuations significantly impact my investment decisions in mutual funds.	3.53	0.020	
	I prefer equity mutual funds despite their higher risk for potentially higher returns.	15.40	0.015	

Source: Prepared by Author

6. CONCLUSION

The findings of this study provide significant insights into investor behaviour toward mutual fund investments. One of the most prominent observations is that investors primarily view mutual funds as a means of wealth creation. This suggests that mutual funds are increasingly perceived as a long-term investment avenue that can generate substantial financial growth over time. Unlike traditional investment instruments such as fixed deposits and gold, mutual funds offer the potential for higher returns, attracting investors who aim to build wealth systematically. This growing awareness and preference for mutual funds as a wealth-building tool indicate a shift in investment mindset, particularly in an era where financial literacy is improving, and digital platforms have made investment processes more accessible.

Another key finding is that market fluctuations play a crucial role in shaping investor decisions. Investors exhibit a high degree of sensitivity to market trends, which significantly influences their investment choices and strategies. Volatility in

financial markets often leads to changes in investor confidence, causing some to adopt a cautious approach while others take advantage of market dips to invest further. This behaviour highlights the importance of investor education and advisory services in helping investors navigate market uncertainties. Financial institutions and fund managers must focus on providing accurate, transparent, and timely information to assist investors in making informed decisions, thereby reducing fear-driven reactions to market fluctuations.

Furthermore, the study reveals that despite the risks associated with equity mutual funds, investors prefer them over other types of mutual funds due to their higher return potential. This indicates that investors are willing to take on higher risks in pursuit of greater financial gains. Such risk-taking behaviour suggests that a segment of investors, particularly those with higher financial awareness and risk tolerance, views equity mutual funds as an essential component of their portfolio. The preference for equity funds may also be influenced by the historical performance of equity markets, which, over the long term, have yielded substantial returns compared to fixed-income investments. However, this also underscores the need for investors to have a well-diversified portfolio to balance risks effectively.

Additionally, the study finds a significant relationship between investors' demographic profiles and their behaviour toward mutual fund investments. Factors such as gender, age, education, and occupation play a crucial role in shaping investment preferences and decision-making patterns. For instance, younger investors may be more inclined to invest in high-risk, high-return equity funds, whereas older investors might prefer safer investment options such as debt or hybrid funds. Similarly, individuals with higher education levels and financial knowledge are more likely to engage in diversified mutual fund investments, while occupation-based differences influence investment goals and risk tolerance. This demographic-based variation emphasizes the need for customized financial advisory services and targeted investment products that cater to the specific needs and risk appetites of different investor groups.

In sum, the study highlights that wealth creation remains the primary driver behind mutual fund investments. Market fluctuations significantly impact investor decision-making, reflecting the importance of market awareness and risk management. The preference for equity mutual funds, despite their inherent risks, demonstrates that investors are willing to embrace volatility for higher returns. Furthermore, demographic factors significantly influence investment behaviour, suggesting that mutual fund providers must adopt tailored marketing and advisory approaches to address the diverse preferences of investors. Enhancing financial literacy, promoting systematic investment strategies, and providing investor-friendly tools can further strengthen mutual fund participation and contribute to a more informed and confident investor base.

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